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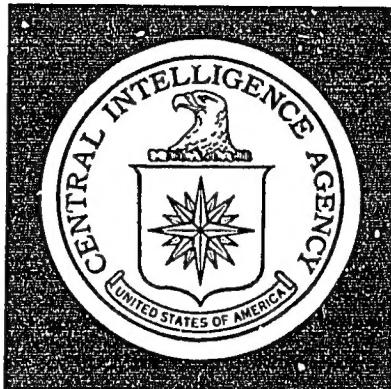
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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Communist China:
The Significance of Lower Grain Imports*

Secret

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February 1968

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1968

INTELLIGENCE MEMORANDUM

Communist China: The Significance
of Lower Grain Imports

Summary

It now appears that Communist China will import from 1.5 million to 2 million metric tons less wheat in the 1967/68 grain year than in the preceding year.*

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China has been cutting back recently on grain imports, despite the need for 4 million additional tons of grain to feed the annual population increase. This is the strongest evidence that production of grain must have increased substantially in 1967, the Cultural Revolution notwithstanding. Preliminary data also show that the Chinese exported about \$180 million more of foodstuffs than they imported last

* Grain years run from 1 July to 30 June.

Note: This memorandum was produced by CIA. It was prepared by the Office of Economic Research.

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year. Hence, 1967 was a second year of modest progress for China in meeting its food-population problem. Continued improvement in China's holdings of gold and foreign exchange make it most unlikely that the cutback in grain purchases is a reflection of "belt-tightening." Since the cutback in grain purchases during the 1967/68 grain year was made possible by unusually favorable weather conditions, China may again require larger grain imports in 1968/69. If so, the availability of foreign exchange would not constrain the Chinese in negotiating for wheat imports.

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Recent Grain Imports

4. Over the six grain years from 1961/62, Communist China's imports were relatively steady, as shown in Table 1.

Table 1

Communist China: Imports of Grain
Grain Years 1961/62 - 1966/67

<u>Thousand Metric Tons</u>	
<u>Grain Years</u>	<u>Amount</u>
1961/62	5,996
1962/63	5,425
1963/64	5,799
1964/65	5,466
1965/66	6,173
1966/67	5,103

5. Total grain consumption requirements are estimated to increase about 4 million tons a year in order to maintain the same nutritional level for the growing population. Table 1, then, does not imply that grain output in China was static, but that the net deficit, requiring purchases of grain abroad, remained almost constant.

6. Improvement in domestic production in 1967, however, must have been marked, if import data for consumption year 1967/68 are a valid reflection of crop performance. Table 2 gives a statistical measurement of this development.*

7. It seems unlikely that much more grain, if any, will be shipped [redacted] before the end of March 1968 because of the necessary negotiating and shipping times that must be allowed for. [redacted]

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* Consumption years run from 1 July to 30 June.

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Table 2

Communist China: Imports of Grain
Consumption Years 1966/67 and Projected 1967/68

<u>Quarter</u>	<u>Thousand Metric Tons</u>	
	<u>1966/67</u>	<u>1967/68</u>
Jul-Sep	1,209	884
Oct-Dec	1,303	823
Jan-Mar	1,239	600 a/
Apr-Jun	1,352	600 to 1,200 a/ b/
<i>Total</i>	<i>5,103</i>	<i>2,907 to 3,507</i>

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Trade in Agricultural Products

8. China's exports of foodstuffs are largely high-value items -- livestock products, rice, fruit, and vegetables. In exchange, it imports low-value grains -- primarily wheat. Food exports go to Hong Kong, to the overseas Chinese living in Southeast Asia, and to Japan and Western Europe. Grain

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imports are largely from Canada and Australia, although China has also imported smaller amounts from Argentina and France in recent years.

9. In the late 1950's, China had net earnings of from \$600 million to \$800 million per year from the food trade. The disorganization imposed by the Leap Forward resulted in a deficit of \$310 million in 1961, which was the low point. Since that time, China has shown gradual improvement in her net trade in foodstuffs. It probably achieved a surplus of about \$180 million in 1967, which indicates the rate of improvement in the short run has been faster than the rate of population increase (see Table 3).

Table 3

Communist China: Exports and Imports of Foodstuffs
1965-67

	Million US \$		
	<u>1965</u>	<u>1966</u>	<u>1967 a/</u>
Exports	515	630	600
Imports	530	500	420
Balance	-15	130	180

a. Preliminary estimate.

China's Foreign Exchange Position

10. It is most unlikely that the current low level of grain purchases is a reflection of financial stringency on the part of China. China's gold holdings are estimated to have increased to an all-time high of at least \$430 million at the end of 1967 and because of the uncertainty of calculation may actually have been somewhat more than \$500 million.

11. While China's exports to the Free World declined significantly in 1967, largely as a result of the Cultural Revolution, its holdings of Western currencies may have been maintained at adequate

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levels, aided by a windfall of at least \$30 million as a result of the devaluation of the pound sterling, because most of China's debts in the West were in UK pounds with no gold value guarantee.

12. Because the cutback in grain purchases during the 1967/68 grain year was made possible by unusually favorable weather conditions, China may again require larger grain imports in 1968/69. If so, the availability of foreign exchange would not constrain the Chinese in negotiating for wheat imports.

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